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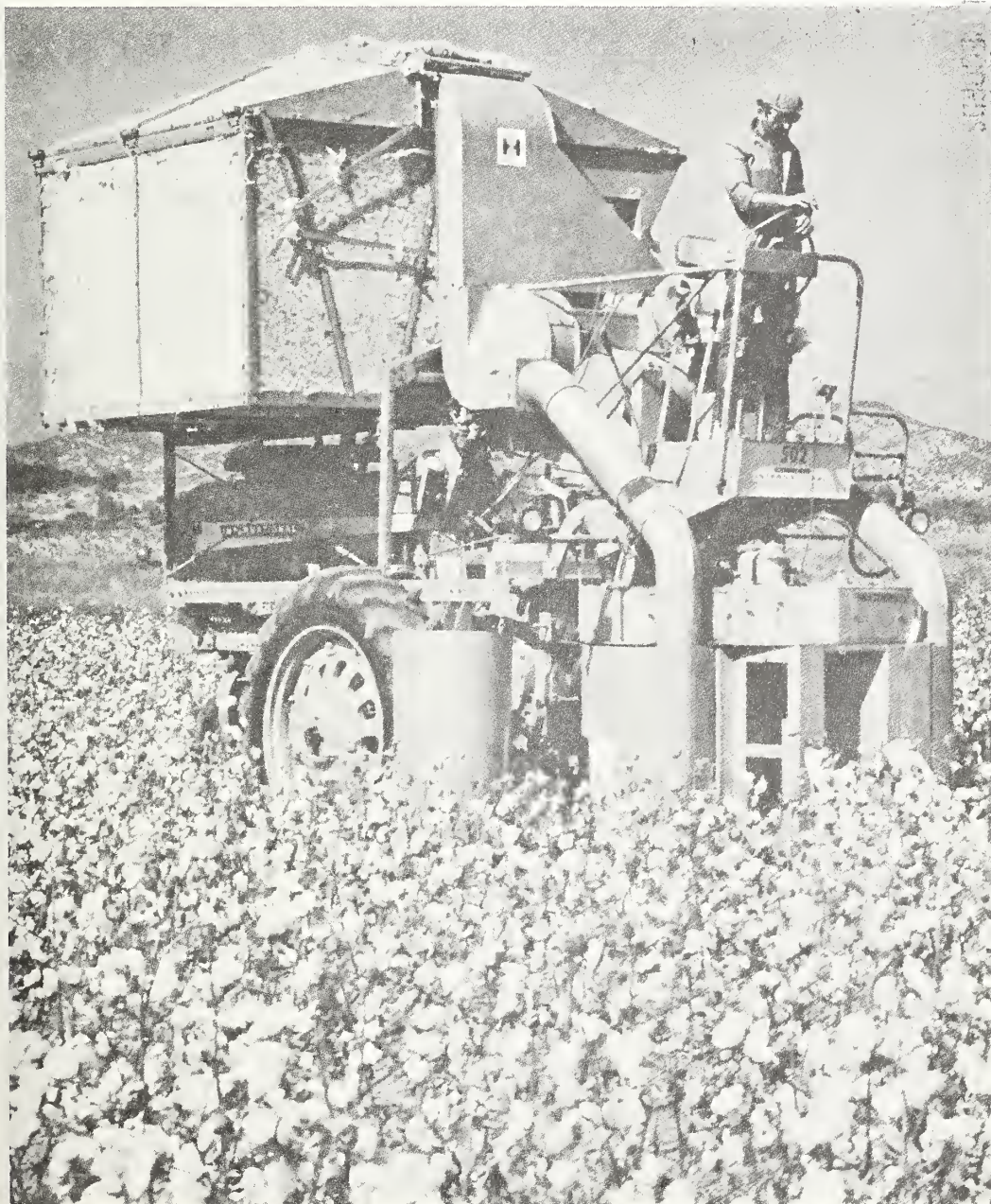


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# Foreign Agriculture

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U. S. DEPARTMENT  
OF AGRICULTURE



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# The EC's CAP: How It Works

By Richard B. Schroeter and Omero Sabatini

January 1, 1978, marked the 20th anniversary of the effective date of the European Economic Community (EEC). It also noted another important development in the process of European integration as agricultural price policies became uniform among the members of the Community, which has expanded from six original Member States to the current nine.

**T**he European Economic Community (EEC) was established by the Treaty of Rome, which was signed in 1957 by West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg.

The Treaty of Rome set forth general principles and specific objectives for the gradual integration of the economies of the members in order to achieve full economic union and, ultimately, political unity.

The development of a Common Agricultural Policy (CAP) was one of the tasks assigned to the EEC in the pursuit of economic integration.

In July 1967, the institutions of the EEC were integrated with those of the European Coal and Steel Community and of the European Atomic Energy Community. Since then, the three Communities have been collectively known as the European Communities or

Community (EC).

The United Kingdom, Ireland, and Denmark joined the EC on January 1, 1973. During a transition period that ended on December 31, 1977, the new members gradually adjusted their policies to the common rules of the original members.

On January 1, 1978, agricultural price policies became uniform throughout the nine members of the EC, except for a few relatively minor cases such as U.K. butter, to which special EC provisions will apply throughout 1978. Alinement of the common external tariff of all nine members was completed on July 1, 1977, for industrial products and December 31, 1977, for agricultural products.

Aside from the formation of a customs union with a common external tariff, the CAP has been the only other jointly operated policy of the EC.

Regulations implementing the first phase of the CAP became effective July 30, 1962. Commodities covered by these regulations were grain, pork, eggs, poultry meat, and fruits and vegetables.

By 1970, about 90 percent of agricultural production was under EC regulation. The Community is now negotiating a common policy for mutton and lamb, potatoes, and alcohol. After the CAP is extended to these products, virtually all EC farm production will be subject to joint Community legislation.

Although the specifics of the CAP vary from one product to another, the CAP is essentially a complex, comprehensive system of price supports, minimum import prices, stockpiling, and export subsidies—all designed to keep internal farm prices high by insulating them from foreign competition.

In general, CAP policies of high support prices apply not only to products in which the EC is less than self-sufficient, but also to products that are in chronic surplus. Production controls (or disincentives), all rather limited in scope, are now in effect only for milk, sugar, and a few other crops, mostly of the horticultural type.

The stated general objectives of the CAP are to increase farm productivity, stabilize markets, ensure a fair standard of living for the agricultural population, and provide consumers with regular and reasonably priced supplies of farm goods.

Better guides to the operation of the CAP are the three fundamental principles of Community preference and farm income support, common pricing, and common financing.

The principle of Community preference and farm income support establishes a preferred market for EC products and insulates the EC from world market prices and fluctuations. The EC relies primarily on a combination of minimum import prices, variable import levies, and export subsidies to

maintain Community preference and to keep farm incomes high. This system applies to most agricultural production, including the grain, dairy, and livestock sectors.

When world market prices are below EC-established minimum import prices, the Community imposes import levies that can be changed as often as every day. These variable levies make imported products more expensive or harder to obtain than domestic items. The system reverses itself when EC products are exported outside the Community. Restitutions, which are direct subsidy payments to exporters, are granted to make EC products competitive.

The support price—termed intervention price in the EC—is the level at which intervention agencies of member countries are obligated to purchase all quantities of the product offered to them. Intervention prices are set for grains, rice, sugar, rapeseed, sunflowerseed, olive oil, beef, butter, nonfat dry milk, certain Italian cheeses, and tobacco. Intervention prices also apply to the horticultural sector, but in this case, are basically used to relieve disastrous market conditions.

Minimum import prices apply to grains, rice, dairy products, beef, pork, poultry, eggs, olive oil, sugar, wines, certain fresh fruits and vegetables, and tomato concentrates.

In the grain sector, the minimum import price is referred to as the threshold price, and is derived from the target price, which represents the level the EC wants the market price to approximate. The sole difference between target and threshold prices consists of transport and marketing costs; the target price is fixed for a grain-deficit area in West Germany, whereas

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the threshold price applies at all EC border points.

The usual function of the threshold price is to ensure that the price of imported products in the EC is above the intervention price level. In the case of corn, for example, the threshold price in October 1977 was about \$196 per metric ton, or \$23 above the intervention price.

Imported corn is assessed a levy to bring its price up to at least the threshold price level. Each day, the EC Commission determines the lowest offer price (Rotterdam basis) in the world market. The difference between this offer price and the threshold price is the levy, and is applied to all corn imports on a particular day. On October 4, 1977, for example, the levy on corn was about \$110.40 per ton.

Export subsidies are used to dispose of products held in intervention and to export excess market supplies in order to maintain domestic prices at desired market levels and avoid accumulation of surpluses. However, when EC prices are below world market prices, as in 1973/74, export levies are applied to ensure adequate domestic supplies.

Another principle, that of common pricing, requires the price of any farm product to be the same throughout the EC—without interference from either national duties or subsidies. To this end, support prices may be set in such a way as to facilitate movement of products from surplus to deficit areas.

Common pricing has been seriously disrupted since 1969 by the fluctuations in exchange rates of member countries' currencies. Consequently, the price of the same farm product can now vary substantially from one member country to another.

In trying to minimize these price discrepancies

and their impact on trade among Member States, the EC has introduced offsetting border taxes and subsidies, called Monetary Compensatory Amounts (MCA's).

The third principle, common financing, means that the cost of agricultural support is shared by all members. To finance the joint operation of the CAP, the EC has created the European Agricultural Guidance and Guarantee Fund (FEOGA).

The Guarantee section of the Fund finances expenditures arising from market support (such as intervention purchases, stockpiling costs, and export subsidies), and covers the deficit generated by the operation of the MCA's. The Guidance section finances policies aimed at improving agricultural structures.

In 1976, expenditures for market support under the Guarantee section totaled approximately \$6.7 billion, compared with \$1.7 billion in 1968.

Expenditures for structural measures totaled \$390 million, about the same as in 1968. Support expenses for dairy products in 1976 were \$2.5 billion, with some 60 percent of these funds spent on intervention measures including storage and price subsidies. The balance was incurred for export subsidies. Beef and veal support measures cost the Community \$770 million, and support in the grain sector totaled \$730 million.

Disbursements by the individual member countries on various agricultural measures such as funding early retirements, veterinary control, and rural public services totaled \$13 billion in 1976.

Community expenditures for agriculture in 1977 are estimated at about \$8.0 billion.

As noted, the policy of

establishing a Community-wide common price for the same farm commodity began to break down in 1969 with the devaluation of the French franc (FF) and the revaluation of the West German Deutsche mark (DM).

Common pricing was disrupted further by the broader monetary disturbances that began in 1971 and have resulted in a number of official devaluations or revaluations of the currencies of EC members and two devaluations of the U.S. dollar.

The EC establishes agricultural support prices, import levies, and export subsidies in terms of a specially created standard of value called the unit of account (u.a.). These prices are then converted into national currencies at specified rates of exchange. There are, however, no u.a. notes or bills.

Prior to the change in value of national currencies in relation to one another—that is, before national currencies began to float—the rate of exchange of each national currency with one another and with the u.a. was determined by the par value of each currency and the par value of the u.a. No rate of exchange was allowed to fluctuate either up or down by more than 1 percent. If it did, central banks entered the market to restore the balance.

The par value of 1 u.a. was and remains equal to the par value of 1 predevaluation U.S. dollar—or about 0.889 grams of fine gold, at the official price then set for gold.

However, the par value system for national currencies has been discarded and the relative value of EC national currencies is determined by market forces through the daily float, with some currencies floating jointly and others floating independently.

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**"Some changes in the CAP are expected to result from the likely admission of Spain, Greece, and Portugal to the EC in a few years."**

As a result of the float, the relative value of national currencies (or actual rates of exchange) can fluctuate up or down as often as every day. Frequent fluctuations do occur, and they are often much larger than the 1 percent allowed under the old system.

As national currencies began to appreciate or depreciate relative to each other, they automatically appreciated or depreciated relative to the u.a., which has retained an officially fixed value and is not traded on the foreign exchange market.

This u.a., which is the original EC common standard of value, is also called the gold-parity u.a. Its rate of exchange with the U.S. dollar for calculating import levies and export subsidies is calculated every week. As of late November 1977, one u.a. was roughly equal to US\$1.38.

Because of the Community policy of common agricultural prices, a change in a country's currency relative to the u.a. would have required a corresponding change in domestic farm prices of that country—a rise in prices in the event of devaluation and a lowering of prices in the case of currency appreciation.

However, countries with weak currencies feared that if agricultural prices were raised by the full amount required by devaluation, such hikes would put unacceptable inflationary pressures on the economy, while countries with strong currencies did not find it politically expedient to let farm prices drop all the way to the level required by revaluation.

Instead, new and separate rates of exchange were established between the u.a. and each country's national currency (except that of Denmark) for all financial

and commercial transactions covered by the CAP. These separate rates of exchange used in agriculture are called representative or green rates. They are fixed annually and may be adjusted periodically, but they do not float in step with the rate of exchange of national currencies.

The differences between the green rates and actual market rates have caused support and market prices of a given farm commodity in a member country to differ substantially from the prices of the same commodity in other member countries.

To avoid carrying national price differences into trade among members and to avoid the total disruption of common pricing in intra-EC farm trade, the Community resorted to the application of MCA's, which are border taxes or subsidies. Currently, eight of the nine members apply them to their trade in grains, pork, beef, poultry, eggs, dairy products, Durum wheat, and most processed farm products.

By resorting to the green rate, countries with revalued currencies have not allowed their domestic farm prices to drop by the amount required by revaluation. Therefore, MCA's are a tax on imports and a subsidy on exports for countries with a revalued currency—West Germany, Belgium, the Netherlands, and Luxembourg. On the other hand, for countries with devalued currencies—the United Kingdom, France, Italy, and Ireland—MCA's are a subsidy on imports and a tax on exports, since these countries have not let their domestic prices rise by the amount required by devaluation. (MCA's do not apply to Denmark).

In trade with non-EC countries, MCA's are added to the import levies and ex-

port subsidies for West Germany, Belgium, the Netherlands, and Luxembourg, while they are subtracted from the import levies and export subsidies for the United Kingdom, France, Italy, and Ireland. Levies and subsidies are adjusted by a monetary coefficient related to the level of the MCA's.

Without the MCA's, a product from a member country with a weak currency (regardless of whether the product is of domestic or third country origin) could undercut a similar product from a country with a revalued currency. Conversely, competitiveness of a product from a country with a strong currency would be impaired in member countries with depreciated currencies.

For example, at the start of the 1977/78 marketing year, the support price of a metric ton of barley was 120.6 u.a. At the established green rate of exchange of 1 u.a.=DM3.41 and 1 u.a.=FF5.78, the support price was roughly DM411 per ton in West Germany and FF697 per ton in France.

However, the market rate of exchange of the German mark to the franc was DM1=FF2.13. Thus, at the bank, DM411 brought in about FF875, instead of the fewer FF697 brought in by the green rate of exchange.

Conversely, FF697 at the bank brought in DM327 instead of the DM411 brought in by the green rate. Since traders do not use u.a.'s and green rates of exchange but deal in actual national currencies and the actual market rates, West German barley that can be sold in West Germany for DM411 (valued at FF875) at the bank, cannot be sold in France for FF697 (valued at DM327 at the bank).

To restore competition, the West German exporter

receives a subsidy from the EC that enables him to lower his offer price closer to the French level, while the French importer receives a Community subsidy large enough to enable him to pay the reduced West German offer price.

Conversely, French barley that can be sold in West Germany for the equivalent of FF875 will not be sold in France for only FF697. In this case, to restore competition, a French exporter of barley to West Germany has to pay the Community a tax that brings the barley offer price closer to the West German price, while the German importer has to pay the EC an import tax large enough to bring the price of imported French barley all the way up to the level of the West German price.

The amounts of MCA's applicable to a particular product at any given time are published in the Official Journal of the EC and are expressed in the national currency of each member.

In practice, however, the combination of MCA subsidies and taxes does not offset fully the imbalance in national prices. Competition is becoming increasingly distorted.

The EC Commission continually tries to restore common prices and to eliminate MCA's. It has made repeated proposals for abolishing green rates, or at least bringing them closer to the market rates.

Consideration has also been given to the use in agriculture of the European unit of account (EUA), which is more closely related to the actual value of EC currencies. The EUA—introduced in 1975—is used now by the European Coal and Steel Community and for financial assistance to foreign countries and less developed areas within the Community.

However, all the proposed solutions would bring about changes in national agricultural prices, the very thing that Member States sought to minimize with the introduction of the green rate. Therefore, no quick solution appears in sight.

No bilateral agreements now can be made by member countries. The Community has participated in all General Agreement on Tariffs and Trade (GATT) multilateral trade negotiations, beginning with the Dillon Round Negotiations of 1960-61, where the United States negotiated duty-free bindings on soybeans and soybean meal.

At the Kennedy Round Negotiations of 1964-67 virtually no progress was made in the agricultural sector, as the EC was more interested in trade stabilization than liberalization. An attempt by the EC to regulate agricultural trade was not successful except for a world agreement on grains (the Wheat Trade Convention) and food aid (Food Aid Convention).

At the current round of multilateral trade negotiations in Geneva, the EC, in general, has taken the same basic approach as in the Kennedy Round. Partly because of this attitude, which differs substantially from the more liberal approach of the United States, progress in Geneva had been painfully slow until recent months. However, both the United States and the EC are now determined to bring the negotiations to a successful conclusion. Concessions in the agricultural sector are expected to be included in the final agreement, anticipated in 1978.

Following enlargement to nine countries, the EC negotiated compensation to third countries under GATT to offset losses or impairment of tariff rights resulting from the application of

new tariff schedules in the three new members. The concessions to the United States included tariff reductions on citrus and tobacco.

In general, the EC has not negotiated limitations on the variable levy system. Some exceptions exist, however. An annual tariff quota for frozen beef is exempted from levies. Moreover, tariffs binding on offals, lard, poultry fat, and cooked poultry place a ceiling on levies applied to those products.

Some changes in the CAP are expected to result from the likely admission of Spain, Greece, and Portugal to the EC in a few years. All three countries have asked for admission, and negotiations with Greece are already underway.

Although the Community favors admission of these three countries in principal, negotiations are expected to be lengthy. France and Italy are reluctant to extend the CAP in its present form to more southern European countries, for fear of harming their own horticultural producers.

In general, France and Italy feel that the support price system of horticultural crops should be made similar to that of the principal field crops, particularly grain.

The northern European members of the EC and the EC Commission, however, feel that such a policy would encourage surpluses of horticultural products and result in considerably larger support expenditures. These northern countries and the Commission favor improvement of farm structures and marketing systems in order to increase the efficiency of production and processing of these crops.

In either case, extending or modifying the CAP is not an easy task. It undoubtedly will take some time to reach a compromise. □

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# Colombia Expands Palm Oil Output

By Alfred E. Persi

Colombia's drive for national self-sufficiency in edible oils is closely tied to continuing development of the country's African palm industry. Total edible oil production for 1977 is estimated at about 118,000 metric tons; consumption at about 161,000 tons. Although output of palm oil could amount to 75,000 tons annually by 1985, there is no expectation that Colombia will export palm oil during this century.

Colombia is looking to expanded output of its African palm industry to achieve national self-sufficiency in edible oils.

A deficit producer of vegetable oils for human consumption, Colombia seeks to close the gap between total edible oil output and consumption needs (in 1977, about 118,000 metric tons and 161,000 tons, respectively).

Soybean production in Colombia thus far has been disappointing and insufficient to meet the country's demand for vegetable oil.

While output of soybeans in 1977 is expected to show a 27 percent increase over the 1976 level (which was held down by reduced plantings and low domestic grower prices to 75,000 tons), it falls far short of 1975's record level of 169,000 tons.

Colombia's production of African palm oil represents over 40 percent of the country's total output of vegetable oil. The entire palm oil harvest is consumed do-

mestically, and there is no expectation that the country will export of this commodity during this century.

Commercial production of African palm started in Colombia during the early 1960's, following approval of an Inter-American Development Bank (IDB) loan for African palm oil development.

However, no further loans from any international lending institutions have been approved since the IDB loan, and the Colombia National Federation of African Palm Growers (Fedepalma) has complained that Government and private financing are inadequate for long-term planning of African palm cultivation in Colombia.

Agricultural credit in Colombia has a limit of 5 years, while the African palm does not begin to produce until after this time.

For calendar 1977, the Government has made available the equivalent of \$2.7 million in agricultural credits for new plantings of African palm on 2,800 hectares.

African palms are grown commercially throughout Colombia, with the principal

production areas near the Panama border, in the Atlantico and Magdalena zones, in Santander and southern Cesar, and in the Valle, Narino, and Meta Departments.

All commercial palm plantations are under private management. The Government's Agricultural Institute (ICA) maintains an 80-hectare palm plantation in Tumaco, near the south Pacific Coast, for experimental and seed research purposes.

Colombia's palm production has shown a slow growth pattern for the past 10 years, increasing from a planted area of 19,000 hectares in 1967 to 24,500 hectares in 1976. For 1977, the Ministry of Agriculture estimates a 17 percent expansion in area to 28,600 hectares.

Palm oil production rose without interruption from 1967 to 1974, when it reached a record 50,800 tons. During 1975, production area and oil production declined because of plant disease and lower yields resulting from excessive rains and cloudy days (bright sunlight is important for plant, fruit, and oil development in African palms).

Production declined further during 1976 because of unfavorable weather conditions and to a lesser extent because of some plant disease at one of the palm plantations.

In 1977—weather permitting—production area is expected to expand to 18,100 hectares, harvested fruit to 263,700 tons, and palm oil to 48,800 tons—a total near the 1974 record.

Colombia's principal African palm plantations have extraction plants on their premises where the harvested fruit is crushed into crude oil and then transported to processing plants for further refining. As a result, the industry has no problems with

oil quality caused by bruised fruit or delays in sterilization stemming from harvesting or transportation difficulties.

Palm fruit is harvested manually by shovel-type poles for medium-size trees and by long metal poles with curved blades at the tips for larger-size trees. Palm pods are cut from the tree by these poles and fall to the ground, where they are gathered and transported to the processing plant.

All parts of the palm fruit and pod or husk holding the fruit are utilized. The fruit itself is crushed into crude oil for edible consumption. Both pod and resulting meal are used for plant fertilizer rather than for animal feed, since the oil content is too high and is indigestible for animals.

Palm kernels also are utilized for their oil content, which is consumed primarily by the cosmetic industry. Some plants crush the kernels or pack them for sale to palm kernel oil crushing industries.

Cracked or bruised kernels are separated and are sold as aggregate material for road construction.

Palm kernel oil production in 1976 amounted to nearly 7,000 tons, and for 1977 is estimated at 8,000 tons.

In 1975, Fedepalma presented a 5-year expansion plan to the Government for 15,000 hectares of new African palm plantings annually beginning in 1977.

However, the increase in planted area amounted to only 4,100 hectares in 1977. Industry sources blame insufficient Government financial incentives for the shortfall. Also, some growers believe the Government's recent import liberalization policies on vegetable oils do not encourage increased plantings of palms.

Despite the complaints about the lack of sufficient

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Top: An oil palm plantation worker in Colombia harvests African palm fruit. Left: Closeup of African palm fruit development in Colombia. Palm fruit is harvested manually by shovel-type poles for medium-size trees and by long metal poles with curved blades for larger trees. The country's production of African palm oil for 1977 is estimated at 48,800 metric tons, a total near the 1974 record of 50,800 tons.

production incentives, the future for African palm production in Colombia is promising. Growing area is favorably suited to palm production. The amounts of light and rainfall under normal conditions are advantageous. Scientists, tree experts, and technicians are readily available. The Federal Government's experimental station investigates and studies growth processes of the palm and developing seed.

Fedepalma has projected African palm oil production

at 83,603 tons by 1985. Although this goal may be overly optimistic, output could well amount to 75,000 tons of oil from 28,000 productive hectares by 1985.

This volume of oil would still be insufficient to cover Colombia's consumption needs for edible fats and oils, but with proper programs, internal financing, and Government stimulus for added palm production, the country could well be on its way to self-sufficiency by the turn of the century. □

#### Colombia: African Palm Production, 1967-77

Year	Planted area	Productive area	Palm fruit	Palm oil
	1,000 hectares	1,000 hectares	1,000 metric tons	1,000 metric tons
1967	19.0	8.2	61.0	11.0
1968	19.5	9.9	74.4	13.4
1969	19.8	11.9	98.3	17.7
1970	19.8	12.8	149.4	26.9
1971	19.4	13.9	201.0	36.2
1972	19.5	15.0	230.0	41.4
1973	20.5	17.0	244.4	44.0
1974	20.4	18.2	282.2	50.8
1975	23.4	17.0	258.0	46.7
1976	24.5	16.8	244.8	39.7
1977 <sup>1</sup>	28.6	18.1	263.7	48.8

<sup>1</sup> Estimated. Sources: Colombian Ministry of Agriculture, Fedepalma, and U.S. Agricultural Attache, Bogota.

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# International Cotton Meeting Examines Market Instability

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**E**mphasizing the need to achieve a reasonable degree of stability in world cotton prices and supplies, the 36th Plenary Meeting of the International Cotton Advisory Committee (ICAC) considered current problems—and a buffer stock arrangement as a possible solution.

Delegates from the 36 member nations, meeting in Seoul, South Korea, in October, expressed concern about the difficulties that wide swings in prices and supplies cause growers, traders, and textile mills. Among possible measures for greater market stability, a number of countries indicated that setting up cotton buffer stocks should be considered, but general agreement on this approach was lacking.

P. R. "Bobby" Smith, chief of the U.S. delegation, pointed out that factors other than the supply and

demand for cotton—such as increases in petroleum prices and currency changes—play a major part in cotton price fluctuations. He said a buffer scheme may not be technically and economically feasible, and careful examination of buffer-stock proposals would be needed if they are to be considered further. Smith briefly reviewed 40 years of U.S. experience with price support programs, pointing out that the U.S. program was very expensive; surpluses accumulated to high levels and prices were depressed; and cotton markets were lost to manmade fibers.

In addition to Smith, who is Acting Assistant Deputy Secretary of USDA, the U.S. delegation included seven leading U.S. cotton industry representatives, and four U.S. Government representatives, including the author. Also attending the conference were delegates and advisors from 35 other ICAC countries and observers from five nonmember countries and 10 international organizations. The 37th

Plenary Meeting of the ICAC will be hosted by El Salvador in the autumn of 1978.

ICAC members also discussed a prospectus for expanded world research and development on cotton. It was prepared by its sponsors, the United Nations Development Program (UNDP), the World Bank, and the Rockefeller Foundation. The proposal, seeking the establishment of an organization to be called Cotton Development International (CDI), faced considerable skepticism, with several delegations raising questions about prospects for financial backing of the CDI proposal.

The Committee was told that discussions between the International Institute for Cotton (IIC) and the sponsors of the proposed CDI are being held concerning the eventual relationship of these two organizations.

The IIC, organized in 1966, conducts a program of market promotion and utilization research in Western Europe and Japan. The United States and 11 other cotton-exporting countries are members of IIC. Many delegates felt that more cotton-producing countries should be urged to join in the work of IIC.

The ICAC was encouraged by the interest shown by a number of consuming countries in contributing directly to the IIC program of cotton research and promotion.

A summary of statements by the delegates on the cotton situation and outlook in their respective countries indicated that world cotton supplies are expected to be significantly higher in 1977/78—despite low carry-in stocks—because of a production increase of 6 million bales (480 lb net) from last season to a total of about 65 million bales. World cotton consumption, according to current ICAC estimates, may be down as much as 1

million bales from last season's 61.5 million bales. Also, the weakness in textile demand could have an adverse effect on world cotton trade this season, unless there is some rebuilding of the lower-than-normal stocks of cotton in importing countries.

The sharp decline in prices over the past 6 months is attributed not only to expectations of a larger crop and reduced textile demand, but also to such factors as a slowdown in world economic growth, monetary problems, and existence of overcapacity in the manmade fiber industry.

Upon request of the Committee, the U.S. delegation explained the features pertaining to cotton in the new U.S. Agricultural Act.

In other actions, a cotton-production research seminar was held on "Breeding of Pest/Disease Resistant/Tolerant Varieties of Cotton."

The Committee on Extra Long Staple (ELS) pointed out that, in contrast with upland cottons, current demand for the limited supplies of ELS cotton is apparently strong in producing as well as importing countries. In the past decade, however, global consumption of ELS cotton has suffered a sharp downtrend as manmade fibers have infiltrated many traditional uses. It was decided that ICAC should publish for the 1978 Plenary Meeting the survey of government regulations on cotton, consumption and production projections, and cost of cotton production.

During the closing session, Guenther Dahlhoff of the Federal Republic of Germany was elected Chairman of the Standing Committee for 1977/78; Jamie Lopez-Reyes of Colombia as First Vice Chairman; and Smith as Second Vice Chairman. □

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By Joseph H. Stevenson, Director of the Cotton Division, Foreign Commodity Analysis, FAS.



Despite rising consumption that keeps export availabilities minimal, Greece in most years is a net exporter of raw cotton. In 1977, however, its raw cotton imports and exports will probably be in balance, although exports of cotton yarn and textiles will likely continue to climb. Cotton production will reach a new high.

Greece is expected to consume some 597,000 bales of cotton (480 lb net), 1.5 percent more than the estimate for 1976/77 of 587,890 bales and 14.3 percent above the 522,410 bales of 1975/76. During August 1976-May 1977, actual consumption was 475,550 bales. Of this, 421,980 bales were of domestic origin and 53,570 bales were imported.

The 1977/78 increase in total cotton use is attributed mainly to rising exports of yarn and textiles to the European Community, where West Germany is the major market. Shipments to Eastern Europe are sizable and will probably grow in the future because of Government incentives to Greek yarn exporters servicing that region.

Rising steadily from slightly more than 4,590 bales in 1961 (raw cotton equivalent), Greece's exports of cotton yarn have grown to the 252,610 bales forecast for 1977, 2.5 percent greater than the 246,320 bales of 1976. Value of all cotton textile exports also has increased—going from \$1.26 million in 1961 to an expected \$148 million in 1977.

Raw cotton exports in 1977 are forecast at 115,000 bales, up 39 percent from the previous year's 82,670 bales but well below the 1970 peak of 328,000 bales. The 1977 crop was harvested from an area estimated by the Hellenic Cot-

## Greek Cotton Exports, Imports Equal in 1977, Textile Shipments Up



Greek cotton storage area. Greece's cotton imports and exports were about equal in 1977, but yarn exports may be up.

ton Board at about 182,980 hectares, 23.1 percent above the 1976 area of 148,650 hectares. The record area was 231,000 hectares in 1963.

Greece's 1977/78 cotton imports—also estimated at about 115,000 bales—are expected to be 10 percent above those of the year before, according to the Cotton Board.

Imports during 1976/77 (August 1-July 31) are estimated at 103,970 bales. The United States was again the principal source, supplying 37,000 bales, compared with the previous year's 31,900. Egypt was again second, supplying 23,000 bales, compared with last year's 28,560. Other 1976/77 sources were Israel, Syria, and Sudan.

To support the demand, Greece has been boosting its cotton outturn. Forecast at 715,000 bales, 32 percent above the 1976 esti-

mate of 540,000 bales, 1977 cotton production has surpassed the previous (1972) record of 643,000 bales by 10 percent.

Weather in 1977 was excellent during the growing and boll-setting stages and pushed yields to 3.7 bales per hectare, compared with about 3.5 bales a year earlier. Further, the weather brought the crop to maturity sooner and picking was started in mid-September, about 15 days earlier than normal.

Behind Greece's mounting cotton production is a drive to grow more of the crop on irrigated lands. The share of total production grown in such areas hit 96 percent countrywide in 1977, compared with 94.3 percent a year earlier. In Thessaly, where slightly more than half of the country's cotton area is located, the region's farmers grew the entire 1977 cotton crop

under irrigation.

Greece is also mechanizing a larger share of its cotton outturn. In 1977, an additional 170 mechanical cotton pickers were imported bringing the country's total to 736, of which 634 were in operation during the 1977 harvest. Thessaly alone has 405 pickers, 64 percent of the total.

It is roughly estimated that each picker handles an average of 45 hectares of cotton, which means that for the country as a whole, some 28,530 hectares are picked mechanically. This is 15.6 percent of the total 1977 cotton area.

In 1972, just 3.6 percent of the crop was picked by machines. The total rose to 8.2 percent the next year and to 10.4 percent a year later. In 1975, the share had risen to 12 percent and to 14.1 percent in 1976.

Of Thessaly's 95,355 hectares of cotton land, 18,225 hectares, or about 19.1 percent of the region's 1977 cotton area was picked mechanically. In 1976, the percentage also was about 19 percent.

The Greek Government guarantees cotton growers a support price equivalent to 60 U.S. cents per kilogram of seed cotton for the 1977 crop. Whenever the Cotton Outlook "A" Index price falls below the support price, an income support payment is paid to growers. With the "A" Index price on December 1, 1977, at around \$1.30 per kilogram, it appears certain that payments were necessary in 1977.

The Government also grants subsidies (30 percent in 1977) toward purchase of all kinds of agricultural machinery, including cotton pickers.

In addition, the Greek Agricultural Bank provides loans to cotton growers at low interest rates. □



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## Ontario's Flue-Cured Tobacco Output Meets Target Level

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Ontario's flue-cured tobacco growers should meet—and probably exceed—the 1977 planned production level of almost 93,000 metric tons, set by the Ontario Flue-Cured Tobacco Growers' Marketing Board and the Canadian Tobacco Manufacturers' Council.

In mid-September when about 90 percent of the crop had been harvested, it was apparent that the target

level would be reached easily and that last year's crop would rise sharply from 1976's outturn of 72,144 tons. Ontario accounts for most of Canada's flue-cured tobacco crop, whose total for 1977 is estimated at a little more than 100,000 tons.

For the second straight year, the country's flue-cured tobacco was grown on a pound-quota system, fol-

lowing approval by the majority of Ontario's growers in a vote held early last year.

An agreement in May 1977 between the growers' marketing board and the manufacturers' council resulted in a guaranteed minimum of Can\$1.00 per pound for the 1977 crop (205 million pounds).

Marketings by growers through November 25 have been in line with the agreement. Total sales of 43 million pounds had averaged about 107 Canadian cents per pound. The daily average had strengthened, with more recent sales averaging about 110 Canadian cents

per pound of tobacco.

Of this year's output the manufacturers' council expects about 31,500 tons to enter export channels, a level that pleases the marketing board following the lean years of 1975 and 1976 when flue-cured exports averaged less than 27,000 tons.

The 14-cent-per-pound rebate on export tobacco provided by the Council combined with the lower value of the Canadian dollar (at 89.5 cents to the U.S. dollar on October 28, 1977) should make Ontario flue-cured tobacco attractive to foreign buyers in 1977/78 marketing season. □

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## Inter-American Bank Backs Andean Marketing Study

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The Inter-American Development Bank recently approved a \$260,000 grant to help finance a study to explore needs for additional marketing facilities for grains and oilseeds in Bolivia, Colombia, Ecuador, Peru, and Venezuela. By stabilizing supply and prices of grains and oilseeds in the Andean region, the program is expected to help cover the nutrition needs of the low-income population while providing higher standards of living for farmers.

The technical cooperation grant, extended by the Bank's Fund for Special Operations, will be used by the Junta del Acuerdo de Cartagena (JUNAC) for consulting services to prepare an investment plan for the marketing facilities of grains and oilseeds, on a regional

basis, in the Andean Common Market.

Grains and oilseeds account for a very important part of the Andean population's diet, based mainly on such products as rice, corn, sorghum, wheat, and soybeans and other oilseeds. The region's production has not kept pace with demand, which has grown significantly in recent years. This has resulted in substantial increases in the area's imports of wheat, corn, sorghum, oils, and fats, amounting to more than \$700 million per year.

Higher world prices of these products had a strong impact on the low-income population, causing the nutrition levels of large sectors of the region's population to stagnate or even diminish.

JUNAC was created in 1969 to promote the integrated economic development of the Andean countries. In the agricultural sector, it coordinates national development plans to achieve better use of resources, increase productivity, and improve rural living standards. Since 1970, the Bank has supported JUNAC with some \$300,000 in technical cooperation for studies related to industrial, agricultural, and transportation sectors.

The studies to be carried out with the help of the technical cooperation grant will include: Evaluation of the region's potential market for grains, oilseeds and byproducts; mechanisms to coordinate the interregional supply; and investments to implement the integration of their production and marketing systems. Total cost of the program is estimated at \$350,000, with the Bank's technical cooperation covering 74.3 percent of the total outlay and JUNAC the remainder. □

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## Fertilizer Output, Use Set Records

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World production of chemical fertilizers—nitrogen, processed phosphate, and potash—in 1975/76 amounted to 92.2 million metric tons, the highest production ever recorded, according to the UN Food and Agriculture Organization's 1976 Fertilizer Review.

While the total U.S. fertilizer production expanded in 1975/76 to more than 18.0 million tons, the USSR for the first time surpassed production in this country and with a 20.5-million-ton production emerged as the largest total fertilizer producer in the world.

Total world consumption of nitrogen, potash, and phosphate reached a new high of 88.7 million tons in 1975/76, an increase of 9.6 percent from that of the previous year. □

# Western Wheat Steps Up Promotion Activities in Asia

Western Wheat Associates' on-going promotion of wheat and wheat products throughout Asia finished calendar 1977 with a flurry of activities and set up 1978 marketing plans in Japan and Thailand.

Hugh Bright, WWA's biscuit consultant, conducted in-plant consultations with company officials in Hong Kong, South Korea, and Japan. The growth of local biscuit and cookie industries in these Asian countries has helped lead to increased U.S. wheat exports to these markets.

Bright, stationed in Singapore, completed his promotion mission to the Republic of Korea since 1972 when the WWA office was first established there.

Between 1972 and 1977, usage of U.S. wheat by the Korean biscuit and cookie industry has risen sixfold—and was expected to top 120,000 metric tons in 1977.

In Korea, Bright conferred with officials of six biscuit and cookie companies, located in Seoul and Pusan. As in the past, Bright found the industry booming, with each firm reporting annual growth rates in the 20-30 percent range.

Bright and company officials discussed production problems, ranging from equipment adjustments to finding the proper ingredient balance. As well, new product ideas were introduced, with one company planning to open a soda cracker plant in the near future.

In Japan, Bright worked with the Japan Biscuit Association and two medium-

sized biscuit manufacturers in continuing efforts to provide technical service to these important users of U.S. Western White wheat.

In Hong Kong, Bright demonstrated new product lines and instructed senior technicians on the use of new enzymes and chemicals that have been developed.

Following approval of WWA's 1977/78 marketing plan, several activities in Japan have been contracted with third-party cooperators. One is a basic baking course at the Japan School of Bak-

ing. Other programs with various Japanese companies include: Technical assistance in flour usage; seminars to improve bread quality; seminar training on cake, pastry, and pasta; U.S. wheat flour special usage; and seminars on premix flour.

Ron Maas, director of WWA's Tokyo office, consulted with officials of a flour milling company, that staged a home baking fair in Sendai. The fair, one of seven scheduled in November and December, featured a computerized analysis of housewives' baking capabilities as well as a special promotion of consumer-pack raisins. Attendance at the fair was larger than expected as home baking is gaining popularity among the Japanese housewives. □

WWA project supervisor Art Palmezz inspected baking industries in Singapore, Indonesia, Malaysia, and Thailand. In addition to helping instructors at the newly established School of Baking in Jakarta, Palmezz arranged more demonstrations and seminars in these countries in early 1978.

In Thailand, WWA signed 13 marketing plan contracts for fiscal 1978. All activities will represent consumer promotion programs or bakery training projects. It is estimated that through these programs, more than 1,200 bakers will receive training, about 12,000 housewives will receive instruction, and about 80,000 school children will be reached—plus an even larger audience via television. □

## Sweden Aids Textile Industry

Sweden is taking further steps to stem the decline of its textile and clothing industries.

The Government's new package of assistance measures includes various forms of subsidies to facilitate reorganization and structural change, favorable loans, loan guarantees, loan write-offs subject to fulfillment of certain conditions, and Government purchase contracts for textile manufacturers.

The decline in employment in Sweden's textile and clothing industries is attributed principally to strong price and style competition in the home market from goods produced in countries with wage levels lower than Sweden's.

Employment in the textile industry has dropped over

50 percent in the past 10 years. The consensus in Government circles is that unless constructive measures are taken to support the industry, a further 50 percent decline in employment may be anticipated by the early 1980's.

The estimated \$113 million cost (for fiscal 1978/79) of the new package is in addition to the nearly \$206 million spent by the Government in support of the textile and clothing industries during the past 5 years.

Sweden is asking the Governments of Hong Kong, South Korea, India, Pakistan, and some unidentified new-to-market developing countries to adopt policies of voluntary restraint in their textile exports to Sweden. One possible course of action would be a series of bilateral arrangements with textile-exporting countries. □

*Based on dispatch from U.S. Embassy, Stockholm.*

## Foreign Agriculture

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**Dale E. Hathaway**, Assistant Secretary for International Affairs and Commodity Programs.

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First Class

## Community's GSP Preferences For '78 Reveal Few Changes

Although some changes were made in the European Community's Generalized System of Preferences (GSP), which went into effect for 1978 on the first day of the calendar year, in general the new program emphasizes maximum use of preferences already granted by the Community, rather than by expanded coverage. The list of beneficiary countries remains the same.

Granting concessions to most products shipped into the EC by nearly all developing countries, the GSP now includes 11 new agricultural commodities benefiting from tariff concessions.

*By Norval E. Francis, International Economist, Trade Operations Division, International Trade Policy, Foreign Agricultural Service.*

These include horses for slaughter, whose tariff rate has been cut from 4 percent to zero; sweet limes, cut from 16 percent to 8 percent; watermelons, from 11 percent to 6.5 percent, between November 1, 1977-May 31, 1978; and reductions from 16 percent to 8 percent for pumpkins and several other vegetables for importation during the winter.

The EC also has agreed to eliminate the duty on jute products from India and Bangladesh 6 months earlier than called for in previous commitments.

All major developed countries and some Communist nations operate separate systems of generalized, non-reciprocal preferences for specified goods from developing countries.

The Community's GSP was introduced in 1971 and is updated at the start of each calendar year. Under this system, virtually all industrial goods from eligible countries enter the EC duty-free, generally up to specified value limits.

Certain processed or semiprocessed agricultural products receive partial—and in a few cases total—exemption from customs charges, generally with no quantitative restrictions. However, in the case of so-called sensitive products, amounts eligible for the GSP are subject to quotas.

Unmanufactured tobacco of the Virginia type, canned pineapple, cocoa butter, and instant coffee are among the products in this group. All the quotas on these products have been renewed for 1978, but some changes have been introduced in quota allocations.

The quota for Virginia-type tobacco is 60,000 metric tons. Flue-cured, Virginia-type tobacco from eligible countries enters the

EC at about half of the most-favored-nation (MFN) tariff. The quota for preserved pineapple, other than sliced, remains at 45,000 tons, while the quota for preserved, sliced pineapple—established in 1977—continues at 28,000 tons. These items also enter at approximately half the MFN rate.

In all, nearly 300 agricultural products—most of them processed—with a potential import value of about \$1.6 billion, are covered by the Community's 1978 GSP. The potential import value was \$1.4 billion in 1977.

More than 100 countries are eligible for GSP concessions. However, since the African-Caribbean-Pacific (ACP) members of the Lomé Convention, and countries covered by the EC's Mediterranean Policy, already receive preferential treatment—often more favorable than that given under the GSP—the GSP affects primarily the developing countries not covered by the terms of the ACP and Mediterranean agreements. □